

ANNUAL REPORT

1978



Automotive Hardware Limited

Comparisons

Year Ended December 31	1978	1977	1976
Sales	\$ 92,640,399	\$ 34,542,729	\$ 33,369,853
Income Before Income Taxes	\$ 6,037,455	\$ 3,767,956	\$ 4,535,992
Income Taxes	\$ 1,932,931	\$ 1,491,786	\$ 2,009,384
Net Earnings	\$ 4,104,524	\$ 2,610,085	\$ 2,542,998
Net Earnings Per Share*	\$ 1.95	\$ 1.385	\$ 1.365
Shareholders' Equity	\$ 35,913,736	\$ 22,067,785	\$20,103,970
Working Capital	\$ 25,882,792	\$ 16,700,248	\$ 17,036,335
Working Capital Ratio	2.00:1	4.48:1	7.14:1
Equity Per Share*	\$ 17.01	\$ 11.725	\$ 10.775
Dividends Per Share* **	42¢	40¢	40¢

* These items give effect to the 1979 subdivision of shares on the basis of two for one which became effective on the 15th day of January 1979.

** This includes 12¢ declared February 5, 1979 which normally would have been declared as a quarterly dividend in December, 1978.

President's Message to Shareholders



I am pleased to report that earnings per share from operations increased from \$1.21 in 1977 to \$1.45 in 1978.

In keeping with forecasts made in our quarterly reports sent to you in 1978, sales of the Company and its subsidiaries, other than ArrowHead, increased from \$34.5 million in 1977 to \$44.0 million in 1978. Sales of the ArrowHead division, from June 1, 1978 to the end of the year, amounted to \$48.6 million.

The somewhat lower profit margins are attributable to increased costs of materials and production (including utilities). To ease this situation, in November 1978 prices were adjusted upward.

One of the most significant growth steps in the company's history took place on June 1, 1978 when the shares of Anaconda Canada Limited were acquired and the subsidiary continued to operate as ArrowHead Metals Ltd. This important acquisition puts us among Canada's leading companies, with a payroll of over 1500 and total sales forecasted in excess of \$125 million for 1979.

Plans are underway for the initial expenditure of approximately \$8 million over the next three years to modernize the ArrowHead manufacturing operations.

Expanded manufacturing facilities and the completion of our new distribution centre in Winnipeg add to our ability, not only to serve present customers better, but also to develop sales in new areas and industrial fields.

As of January 15, 1979, the Company's shares were subdivided so that holders of Class A and Class B shares were given two shares for each one previously held. Dividends paid since this stock split have been increased by 20% over the previous rate.

We strongly believe that with our recent major acquisition, your Company's growth and profitability will accelerate. This, undoubtedly, will react favourably upon the interest of the shareholders. We are committed to remain a truly Canadian Company.

On behalf of the Directors and Senior Management, I extend sincere appreciation to all employees for their efforts.

For the Board of Directors,

A handwritten signature in blue ink that reads "Irwin Goldhart". The signature is fluid and cursive, with the first name "Irwin" and last name "Goldhart" clearly distinguishable.

Irwin Goldhart, *President*

May 11, 1979

In 1978, Automotive Hardware Limited experienced a large increase in demand from domestic and international markets. This trend resulted primarily from world economic conditions and affected sales over most of the year.

The Company also expanded its product lines to take advantage of new requirements arising in various industrial sectors. Increased distribution facilities in Toronto have speeded up movement of products, many of them packaged by new automated machines that greatly enhance our ability to process packaged goods.

The new distribution centre in Winnipeg will be in operation by late summer. This modern warehouse will provide over 35,000 square feet of storage and handling space, enabling us — along with centres in Calgary, Edmonton and Vancouver — to maintain inventory close to our customers in Western Canada. In the east, our Montreal warehouse has been expanded to accommodate ArrowHead inventory. Plans are also under way to expand the Dartmouth warehouse.

Over all, Automotive Hardware continues to demonstrate its determination to grow both in manufacturing capacity and in market coverage. We currently export to over 40 countries in addition to serving all types of industry in Canada and the U.S.A.

We are not as sensitive to business fluctuations as others may be because of our wide coverage to all fastener markets, and also because not a single customer accounts for more than 5% of our total sales.

An increased world-wide demand for Canadian bolts and nuts led to stepped up production in our Company throughout 1978. In addition to scheduling longer runs to increase machine efficiency, we instituted our own training programmes for bolt maker and nut former operators. A new heat treat batch furnace for long length products was installed in 1978.

The ability to manufacture products to higher standards, as a result of improved quality control, has led to increased sales opportunities in new industrial fields. At the same time, the Company has broadened its base in the production of large size fasteners for general manufacturing, oil and gas, automotive, pulp and paper, mining, agriculture and construction.

The increased use of metric measurements in Canada, has resulted in a growing demand for metric fasteners. Our Company is meeting this demand and our inventories will be adjusted to satisfy such needs.

The past year saw significantly greater penetration by Docap in the automotive aftermarket. The Company's growth and coast-to-coast distribution network are attracting inquiries from suppliers both here and abroad, and we are currently negotiating for new lines from U.S. companies. Typical of these is a new Teflon-based lubricant that has automotive as well as household applications. We also provide French language packaging for American companies represented by Docap in Canada.

Docap is pursuing consumer markets in the do-it-yourself field, broadening its line considerably and packaging specifically for the one-stop-shop concept. We supply major merchandising groups across the country.

Among the various items of automotive service equipment produced by Docap, our garage creeper has attracted particularly widespread sales. Now one of the largest manufacturers, we automated our production line this year.

As the Company grows in strength and ability to serve new markets, its future becomes extremely encouraging.

Automatic Screw manufactures a wide variety of products in brass and steel. Its automatic screw machines produce a range of brass fittings which are sold to the plumbing, instruments and automotive industry. Its fully equipped operation, manufactures all kinds of special products to customers' blueprints and specifications.

In addition, Automatic Screw manufactures a full range of special and standard studs, which are used primarily in pipeline and refining applications, as well as continuous threaded rod, widely used in the construction field. We are also equipped to help customers design special parts for their particular requirements.

Automatic Screw provides flexibility to our other companies.

ArrowHead continued to operate the various fabricating divisions formerly operated by Anaconda Canada Limited.

We are currently working on future plans for modernization and an increase in mill capability. Following the acquisition, ArrowHead immediately explored sales opportunities in the U.S.A. and elsewhere which were not readily available to Anaconda Canada Limited. The results indicate that we will significantly expand sales over those achieved when the company was an American subsidiary.

Now fully Canadian owned, ArrowHead is a leading manufacturer of copper and copper alloy products. The fully integrated mill supplies the world's manufacturers, fabricators and installers with sheet, strip, rod, bar, tube and various extruded shapes in a broad range of coppermetal alloys. This range offers users one of the widest selections of mill forms and properties currently available from a single source.

The 910,000 square ft. plant consists of a full scale casting shop — with state-of-the-art furnaces, sophisticated casting equipment, and its own metallurgical laboratory; a rolling mill — with the capability of producing sheet, strip, plate or bar in flat lengths or coils; a two-part rod mill — one geared to very high quality rectangular copper products for the electrical industry, the other designed for a wide range of copper alloy products in a large variety of sizes; and a tube mill which produces seamless tube in all major coppermetal alloy families for use in every type of industrial and commercial application.

All standard products manufactured in the ArrowHead mills conform to ASTM specifications. Improved production techniques and rigid quality assurance programmes have been developed over 55 years to the point today at which the mills can fulfill customer requirements in every way. Millions of dollars have been invested in process equipment, instrumentation and environmental control measures to ensure continued production of the highest quality coppermetals.

Automotive Hardware Limited

AND ITS WHOLLY OWNED SUBSIDIARY COMPANIES

Nine Year Financial Summary

(THOUSANDS EXCEPT WHERE INDICATED)

	1978	1977	1976	1975	1974	1973	1972	1971	1970
Sales	\$ 92,640	\$ 34,543	\$ 33,370	\$ 33,182	\$ 34,066	\$ 24,541	\$ 19,464	\$ 17,531	\$ 15,767
Earnings Before Taxes	\$ 6,037	\$ 3,768	\$ 4,536	\$ 7,324	\$ 9,054	\$ 4,205	\$ 1,740	\$ 1,663	\$ 1,906
Net Earnings	\$ 4,105	\$ 2,610	\$ 2,543	\$ 3,748	\$ 4,697	\$ 2,217	\$ 958	\$ 824	\$ 906
Net Profit Margin	4.4%	7.6%	7.6%	11.3%	13.8%	9.0%	4.9%	4.7%	5.7%
Total Assets	\$ 75,775	\$ 33,020	\$ 28,730	\$ 29,074	\$ 24,482	\$ 20,366	\$ 17,300	\$ 16,546	\$ 15,719
Long Term Debt	\$ 10,862	\$ 3,621	\$ 3,865	\$ 4,084	\$ 4,107	\$ 4,081	\$ 4,287	\$ 4,542	\$ 4,584
Shareholders' Equity	\$ 35,914	\$ 22,068	\$ 20,104	\$ 17,877	\$ 14,788	\$ 10,519	\$ 8,501	\$ 7,759	\$ 7,316
Working Capital	\$ 25,883	\$ 16,700	\$ 17,036	\$ 15,048	\$ 12,384	\$ 7,866	\$ 7,183	\$ 7,069	\$ 7,018
Earnings Per Share*	\$ 1.95	\$ 1.385	\$ 1.365	\$ 2.075	\$ 2.605	\$ 1.23	53¢	46¢	50.5¢
Equity Per Share*	\$ 17.01	\$ 11.725	\$ 10.775	\$ 9.895	\$ 8.20	\$ 5.835	\$ 4.725	\$ 4.31	\$ 4.065
Dividends Per Share* **	42¢	40¢	40¢	37.5¢	24¢	12¢	12¢	12¢	9¢

* These items give effect to the 1979 subdivision of shares on the basis of two for one which became effective on the 15th day of January 1979.

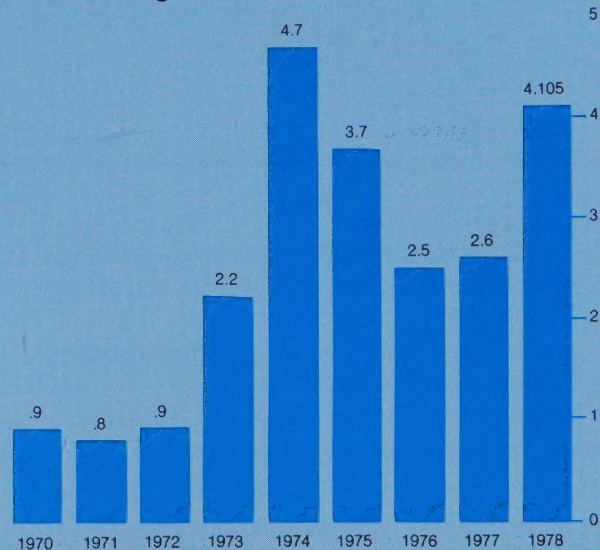
** This includes 12¢ declared February 5, 1979 which normally would have been declared as a quarterly dividend in December, 1978.

Graphic Analysis

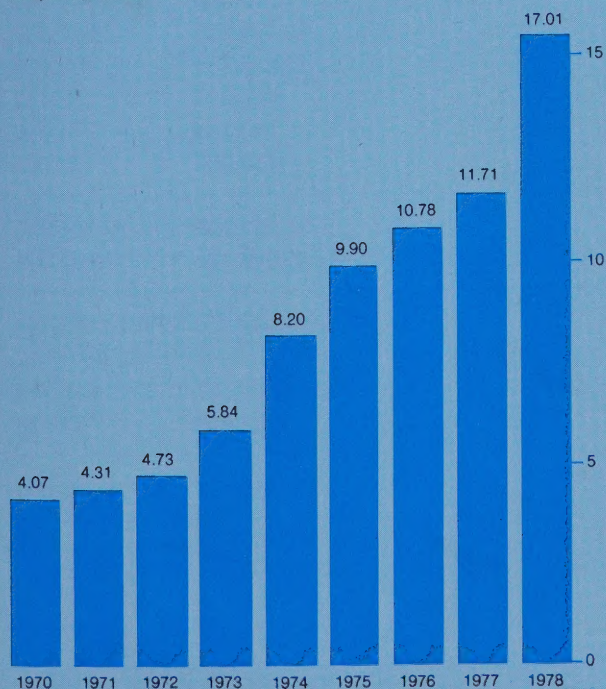
Sales (Millions)



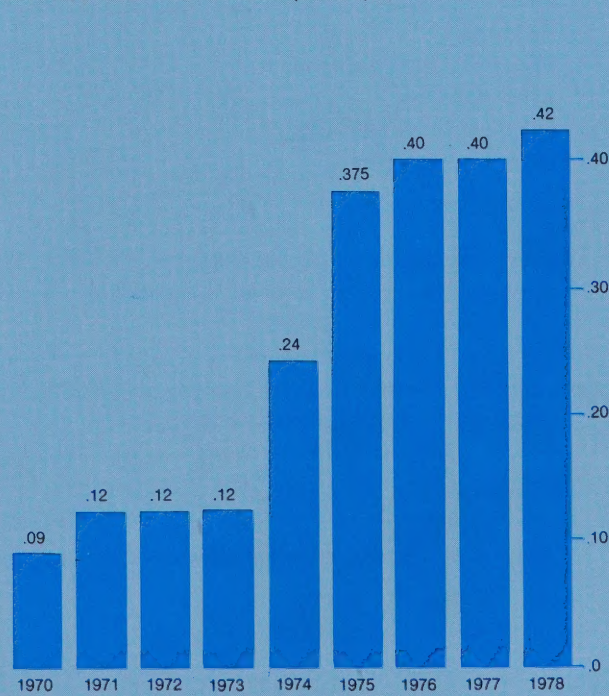
Net Earnings (Millions)



Equity Per Share (Dollars)*



Dividends Per Share (Dollars)**



* These items give effect to the 1979 subdivision of shares on the basis of two for one which became effective on the 15th day of January 1979.

** This includes 12¢ declared February 5, 1979 which normally would have been declared as a quarterly dividend in December, 1978.

Automotive Hardware Limited

AND ITS WHOLLY OWNED SUBSIDIARY COMPANIES

Comparative Consolidated Balance Sheet

AS AT DECEMBER 31

ASSETS

	1978	1977
CURRENT ASSETS		
Accounts Receivable (Less Allowance for Doubtful Accounts)	\$ 20,578,473	\$ 5,796,504
Inventories at Lower of Cost or Replacement Cost	24,742,367	15,112,501
Marketable Securities	12,804	2,250
Sales Tax and Duty Drawback Claims Outstanding	230,129	163,087
Prepaid Expenses and Deposits	716,693	162,321
Corporation Taxes Overpaid	354,367	265,728
Deferred Income Taxes Re: Inventory	5,224,371	—
	\$ 51,859,204	\$ 21,502,391
MORTGAGE RECEIVABLE—7%, Due 1979	\$ —	\$ 27,395
FIXED ASSETS, AT COST		
Land	\$ 1,392,309	\$ 912,400
Buildings	13,198,316	3,571,801
Machinery and Equipment	47,823,571	13,137,637
Motor Vehicles	669,315	367,532
Leasehold Improvements	264,248	214,426
Dies and Small Tools	180,000	180,000
	\$ 63,527,759	\$ 18,383,796
Less — Accumulated Depreciation	40,619,183	7,937,092
	\$ 22,908,576	\$ 10,446,704
MILL ACQUISITION AND DEVELOPMENT COSTS	\$ 984,927	\$ 985,727
UNAMORTIZED DEBENTURE DISCOUNT	22,428	57,638
	\$ 75,775,135	\$ 33,019,855

The accompanying notes form an integral part of these financial statements.

LIABILITIES

	1978	1977
CURRENT LIABILITIES		
Bank Loans and Overdrafts	\$ 17,746,172	\$ 780,804
Accounts Payable and Accrued Liabilities	7,277,190	3,662,046
Corporation Taxes Payable	87,104	—
Dividends Payable	—	188,238
Current Portion of Long-Term Debt	865,946	171,055
	\$ 25,976,412	\$ 4,802,143
LONG-TERM DEBT (LESS CURRENT PORTION ABOVE)	\$ 10,861,825	\$ 3,621,407
DEFERRED INCOME TAX CREDIT	\$ 3,023,162	\$ 2,528,520

SHAREHOLDERS' EQUITY

CAPITAL STOCK	\$ 3,277,053	\$ 1,704,275
CONSOLIDATED RETAINED EARNINGS	29,418,324	18,522,439
CONTRIBUTED SURPLUS	3,218,359	1,841,071
	\$ 35,913,736	\$ 22,067,785
	\$ 75,775,135	\$ 33,019,855

Approved on Behalf of the Board of Directors:

IRWIN GOLDHART, Director.

GOLDIE POTASHIN, Director.

Automotive Hardware Limited

AND ITS WHOLLY OWNED SUBSIDIARY COMPANIES

Comparative Consolidated Statement of Earnings

FOR THE YEARS ENDED DECEMBER 31

	Total January 1, 1978, to December 31, 1978	ArrowHead June 1, 1978, to December 31, 1978	All Companies Except ArrowHead January 1, 1978, to December 31, 1978	All Companies Except ArrowHead 1977
SALES	\$ 92,640,399	\$ 48,646,460	\$ 43,993,939	\$ 34,542,729
Cost of Goods Sold and Operating Expense, Exclusive of Items Shown Below	84,884,446	46,282,953	38,601,493	29,600,263
	\$ 7,755,953	\$ 2,363,507	\$ 5,392,446	\$ 4,942,466
Depreciation	\$ 1,885,617	\$ 851,235	\$ 1,034,382	\$ 909,771
Interest on Long-Term Debt	848,930	640,557	208,373	257,652
Amortization of Debenture Discount	35,210	—	35,210	7,087
	\$ 2,769,757	\$ 1,491,792	\$ 1,277,965	\$ 1,174,510
Income Before Income Taxes	\$ 4,986,196	\$ 871,715	\$ 4,114,481	\$ 3,767,956
Income Taxes	1,932,931	267,787	1,665,144	1,491,786
Earnings from Operations	\$ 3,053,265	\$ 603,928	\$ 2,449,337	\$ 2,276,170
Realization of Deferred Income Taxes	\$ 1,015,158	\$ 1,015,158	—	—
Non-Recurring Net Capital Gains (Net After Tax)	—	—	—	\$ 333,915
Extraordinary Income	36,101	—	\$ 36,101	—
Gain on Disposal of Mining Assets	7,396,995	7,396,995	—	—
	\$ 8,448,254	\$ 8,412,153	\$ 36,101	\$ 333,915
TOTAL EARNINGS	\$ 11,501,519	\$ 9,016,081	\$ 2,485,438	\$ 2,610,085
EARNINGS PER SHARE (See Also Note 13)				
Shares Outstanding	2,110,950			1,882,380
From — Operations	\$1.45			\$1.21
— Sources other than Operations50			.18
	\$1.95			\$1.39
— Gain on Disposal of Mining Assets	3.50			—
	\$5.45			\$1.39

Note: Earnings per share give effect to the 1979 subdivision of shares on the basis of two for one which became effective on the 15th day of January, 1979.

Comparative Consolidated Statement of Retained Earnings

FOR THE YEARS ENDED DECEMBER 31

	1978	1977
Balance, January 1	\$ 18,522,439	\$ 16,664,152
Net Earnings for the Year	11,501,519	2,610,085
	\$ 30,023,958	\$ 19,274,237
Dividends Declared	605,634	751,798
Balance, December 31	\$ 29,418,324	\$ 18,522,439

The accompanying notes form an integral part of these financial statements.

Comparative Consolidated Statement of Changes in Financial Position

FOR THE YEARS ENDED DECEMBER 31

	1978	1977
SOURCE OF FUNDS		
Earnings for the Year	\$ 11,501,519	\$ 2,610,085
Depreciation:	1,885,617	909,771
Amortization of Debenture Discount	35,210	7,087
FUNDS FROM OPERATIONS	\$ 13,422,346	\$ 3,526,943
Principal Repayments of Mortgage Receivable	17,967	16,771
Current Portion of Mortgage Receivable	9,428	—
Increase in Share Capital	1,572,778	105,528
Increase in Long-Term Debt — Non-Current	7,240,418	—
Deferred Tax Credit Adjustment	494,642	544,180
Excess of Book Value of Net Assets Over Acquisition Cost of Subsidiary Company	1,377,288	—
Reduction in Working Capital as Set Out Below	—	336,087
	\$ 24,134,867	\$ 4,529,509
USE OF FUNDS		
Purchase of Fixed Assets (Less Cost of Disposals)	\$ 14,346,689	\$ 3,534,179
Reduction of Long-Term Debt	—	243,532
Dividends Declared	605,634	751,798
	\$ 14,952,323	\$ 4,529,509
Increase in Working Capital as Set Out Below	9,182,544	—
	\$ 24,134,867	\$ 4,529,509
CHANGES IN THE ELEMENTS OF WORKING CAPITAL		
Working Capital January 1	\$ 16,700,248	\$ 17,036,335
Current Assets — Increase (Decrease)		
Accounts Receivable	\$ 14,781,969	\$ 455,606
Inventories	9,629,866	2,632,217
Marketable Securities	10,554	—
Sales Tax and Duty Drawback Claims Outstanding	67,042	(73,955)
Prepaid Expenses and Deposits	554,372	(108,469)
Corporation Taxes Overpaid	88,639	(1,216,044)
Deferred Income Taxes Re: Inventory	5,224,371	—
	\$ 30,356,813	\$ 1,689,355
Current Liabilities - Increase (Decrease)		
Bank Loans and Overdrafts	\$ 16,965,368	\$ 681,889
Accounts Payable and Accrued Liabilities	3,615,144	1,367,199
Corporation Taxes Payable	87,104	—
Dividend Payable	(188,238)	1,618
Current Portion of Long-Term Debt	694,891	(25,264)
	\$ 21,174,269	\$ 2,025,442
Net Increase (Decrease) In Working Capital	\$ 9,182,544	(\$ 336,087)
Working Capital December 31	\$ 25,882,792	\$ 16,700,248

The accompanying notes form an integral part of these financial statements.

Notes to Consolidated Financial Statements

DECEMBER 31, 1978

1. BASIS OF CONSOLIDATION

The accompanying balance sheet and statements of retained earnings and changes in financial position combine the accounts of Automotive Hardware Limited and its wholly owned subsidiary companies. The statement of earnings combines the accounts of:

- (a) Automotive Hardware Limited and all its subsidiary companies, except ArrowHead Metals Ltd. on a comparative basis —and—
- (b) ArrowHead Metals Ltd. for seven months ended December 31, 1978. Comparative financial information for the prior year is neither available nor relevant.

All material inter-company transactions and balances on the abovementioned statements were eliminated for consolidation purposes.

2. (a) ARROWHEAD METALS LTD.

Effective May 31, 1978, all the issued capital stock of Anaconda Canada Limited was acquired from the Anaconda Company by a newly incorporated subsidiary company of Automotive Hardware Limited for the sum of \$32,000,000. On June 1, 1978, the newly incorporated subsidiary and Anaconda Canada Limited were amalgamated, and continued its operations as ArrowHead Metals Ltd.

On June 7, 1978, the mining assets of ArrowHead Metals Ltd. were sold for \$8,950,000. This transaction resulted in a gain of \$7,396,995 over the book values. Such gain is separately reported on the statement of earnings. No provision has been made for income taxes on such gain because ArrowHead Metals Ltd. was able to shelter the taxable portion of the gain through the claiming of capital cost allowances. (See also Note 3(b) re: depreciation).

(b) PLANET STEEL LIMITED

During 1978, Planet Steel Limited was wound up, and its assets passed to Automotive Hardware Limited.

3. ACCOUNTING POLICIES.

(a) Inventories:

All inventories are valued at the lower of cost or replacement cost. All companies except ArrowHead Metals Ltd. determine cost on a "first-in, first-out" basis. ArrowHead Metals Ltd. values its major metals inventory on a "last-in, first-out" basis.

ArrowHead Metals Ltd. inventory:

	JUNE 1, 1978	DECEMBER 31, 1978
(i) "Last-in, first-out" basis	\$ 4,935,363	\$ 9,725,299
(ii) "First-in, first-out" basis	14,143,258	20,671,266
Difference	<u>\$ 9,207,895</u>	<u>\$ 10,945,967</u>

(b) Depreciation:

The company charges depreciation in its accounts at various rates. All rates have been chosen so as to amortize the cost of the assets over their estimated useful lives. Expenditures for maintenance and repairs are charged to income as incurred, and expenditures for major renewals and betterments are capitalized.

The cost and accumulated depreciation in respect of property retired or sold are eliminated from the asset and related depreciation accounts. Profits and losses on such retirements or sales are included in income.

- (c) (i) The companies follow the tax allocation principle of providing for income taxes. Under this principle (a) the earnings statement reflects income tax expense based on consolidated operating results; (b) income taxes payable are calculated on the basis of each company's taxable income; and (c) in the case of all companies, except ArrowHead Metals Ltd., the difference between income tax expense under (a) above and income taxes payable under (b) above is reflected as an adjustment to deferred income tax credit on the balance sheet.
- (ii) ArrowHead Metals Ltd. had undepreciated capital cost available to be claimed as a reduction of taxable incomes of future years. The potential future income tax benefits arising from the availability of these amounts had not been recorded in the accounts because of the uncertainty of when such benefits would be realized.

Consequently, ArrowHead Metals Ltd. has recorded a realization in 1978 of \$1,015,158, which resulted from the sheltering of all operating profits, as well as deferring income taxes otherwise payable because of timing differences in the financial and tax reporting of inventory valuations. Such accumulated timing differences totalled \$5,224,371 as at December 31, 1978.

ArrowHead Metals Ltd. has also sheltered the taxable portion of the gain on disposal of the mining assets through the claiming of capital cost allowances.

The resulting undepreciated capital cost for tax purposes of the depreciable assets of ArrowHead Metals Ltd. was \$14,682,094 as at December 31, 1978, compared to the book value of such assets of ArrowHead Metals Ltd., \$12,279,051.

Notes (continued)

4. LONG-TERM DEBT (SECURED).

	Year of Final Payment	Balance as at December 31,	
		1978	1977
Equipment Contracts Payable	1982	\$ 287,912	\$ 373,876
Realty Mortgage — 10%	1981	105,500	115,500
Realty Mortgage — 10%	1980	59,885	64,885
Realty Mortgage — 10%	1980	—	107,500
Realty Mortgage — 6-7/8%	1986	559,416	624,701
Convertible Debenture — Series A, 6%	1989	1,068,000	2,506,000
Bank Debentures (re ArrowHead) 7/8 of 1% Over Prime	1988	9,647,058	—
		<u>\$ 11,727,771</u>	<u>\$ 3,792,462</u>
Less — Amounts due within one year		865,946	171,055
		<u>\$ 10,861,825</u>	<u>\$ 3,621,407</u>

6% CONVERTIBLE DEBENTURE SERIES A, DUE JULY 2, 1989.

- This debenture, issued July 2, 1969, is secured by a floating charge on the assets of Automotive Hardware Limited and its designated wholly owned subsidiary companies. Interest is paid semi-annually;
- Each debenture is convertible at the holder's option at any time up to July 2, 1979, at a conversion rate of 70 Class A shares per \$1,000 principal amount;
- In each of the years 1980 to 1988, the company is obliged to pay to the trustee, by way of a sinking fund, sums sufficient to retire on July 2 in each of such years, 10% of the aggregate principal amount outstanding on July 3, 1979;
- During 1978, debentures totalling \$1,438,000 were converted into 100,660 Class A shares.

5. (a) CAPITAL STOCK

Authorized:

3,500,000 Class A, Voting, Convertible Shares Without Par Value

3,500,000 Class B, Voting, Convertible Shares Without Par Value

260,000 Common Shares Without Par Value

Outstanding and Fully Paid:

	1978		1977	
	Number	Amount	Number	Amount
January 1 — Class A	201,965		196,190	
— Class B	739,225		736,910	
	941,190	\$ 1,704,275	933,100	\$ 1,598,747
Debenture Conversion	100,660	1,438,000	5,810	83,000
Employee Stock Options	13,625	134,778	2,280	22,528
	<u>1,055,475</u>	<u>\$ 3,277,053</u>	<u>941,190</u>	<u>\$ 1,704,275</u>
December 31 — Class A	268,625		201,965	
— Class B	786,850		739,225	
	<u>1,055,475</u>		<u>941,190</u>	

(b) CONVERSION PRIVILEGE OF 6% CONVERTIBLE DEBENTURE, SERIES A.

The company has reserved 74,760 Class A shares to meet the conversion privilege of the holders of the debenture.

(c) EMPLOYEES' STOCK OPTION PLAN — CLASS A SHARES

	Number of Shares	
	Under Option	Available For Option
Balance at January 1, 1978	31,270	39,890
Options Granted	—	—
Options Terminated	(2,900)	—
Options Exercised for Consideration of \$134,778	(13,625)	(13,625)
Balance at December 31, 1978	<u>14,745</u>	<u>26,265</u>

Options are outstanding to 24 employees (including 3,900 to 3 directors) at 90% of market value at the time of granting.

Notes (continued)

6. CONTRIBUTED SURPLUS

Contributed Surplus as at January 1, 1978	\$ 1,841,071
Excess of net book value of the assets of ArrowHead Metals Ltd. as of June 1, 1978, over the amount paid for the shares acquired	1,377,288
Contributed Surplus as at December 31, 1978	<u>\$ 3,218,359</u>

7. ANTI-INFLATION ACT

The company is subject to and believes it has complied with controls over prices, profit margins, compensation and dividends under the federal government's anti-inflation program.

8. COMMITMENTS

(a) Leases:

The company and its subsidiary companies have entered into major realty leases terminating at various times up to 1986. Total commitments under such leases were \$1,030,634; plus realty taxes in each year as applicable.

(b) Pension Plans:

The following payments were made during 1978:

Current Service	\$ 387,008
Past Service Funding	865,708
	<u>\$ 1,252,716</u>

Past Service funding of the various plans is currently estimated as follows:

Period	Past Service Funding Payments Required
1979 to 1985 inclusive	\$ 1,372,888
1986 to 1989 inclusive	1,313,694
1990	225,438
1991	40,901
1992	25,378

(c) Bank Loans:

Bank loans were secured by a registered assignment of accounts receivable. In addition, the bank loans of ArrowHead Metals Ltd. were secured under Section 88 of the Bank Act, a debenture on its assets, and a guarantee of Automotive Hardware Limited for the sum of \$2,000,000.

(d) Letters of Credit outstanding — \$1,000,693.

(e) Equipment:

At December 31, 1978, the company and its wholly owned subsidiary companies had entered into commitments to purchase production equipment aggregating approximately \$632,159.

9. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Total Direct Remuneration	\$ 540,637
Company Contributions to Pension Plans	\$ 6,453
Number of Directors and Senior Officers	10

10. Pursuant to lease commitments, Irwin Goldhart Investments Limited, of which company Mr. Irwin Goldhart is the Shareholder and President, received rentals totalling \$163,181 from Automotive Hardware Limited, of which company he is the President, for warehouses in Vancouver, Montreal and Dartmouth.

11. CONTINGENT LIABILITIES

(a) In 1978, a former employee of a subsidiary company instituted an action in the Supreme Court of Ontario, claiming an amount in excess of \$1,000,000, but the company denies that it is indebted or liable for any sum whatsoever. The company's counsel, as well as special counsel retained, are of the opinion that the subsidiary company has a good and valid defence to such claims.

(b) An assessment in the amount of \$80,000 by Revenue Canada, Customs and Excise Division, against a subsidiary company is under appeal, and has not been reflected in the attached financial statements.

Notes (continued)

12. SUBSEQUENT EVENTS

- (a) On January 12, 1979, the company granted additional options on 8,600 shares of its capital stock. These options are not included for purposes of calculating the diluted earnings of the company.
- (b) On January 15, 1979, Automotive Hardware Limited obtained amended Articles of Incorporation to give effect to the following:
 - (i) Splitting its issued shares on a 2 for 1 basis;
 - (ii) The creation of new class C redeemable special shares for use in the payment of stock dividends on the class B shares.

13. EARNINGS PER SHARE

	1978	1977
Shares Outstanding	1,055,475	941,190
Shares Reserved for Debenture Conversion	74,760	175,420
Shares Reserved for Employee Options Granted and Outstanding	14,745	31,270
Shares Reserved and Outstanding	<u>1,144,980</u>	<u>1,147,880</u>
Effect of 1979 Subdivision of 2 for 1	<u>2,289,960</u>	<u>2,295,760</u>
Earnings per Share Based on Shares Outstanding:		
From — Operations	\$1.45	\$1.21
— Sources Other Than Operations50	.18
	<u>\$1.95</u>	<u>\$1.39</u>
— Gain on Disposal of Mining Assets	3.50	—
	<u>\$5.45</u>	<u>\$1.39</u>
Diluted Earnings per Share Based on Shares Outstanding and Reserved:		
From — Operations	\$1.38	\$1.03
— Sources Other Than Operations46	.15
	<u>\$1.84</u>	<u>\$1.18</u>
— Gain on Disposal of Mining Assets	3.23	—
	<u>\$5.07</u>	<u>\$1.18</u>

Auditors' Report

To the Shareholders of
Automotive Hardware Limited:

We have examined the consolidated balance sheet of Automotive Hardware Limited and its wholly owned subsidiary companies as at December 31, 1978, and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1978 and the results of their operations and the changes in their financial position for the year then ended, all in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada. MILLER, STONE, SAPERIA AND ISAACS
May 3, 1979 Chartered Accountants

Automotive Hardware Limited

Head Office:

55 Brown's Line,
Toronto, Ontario

Subsidiaries:

ArrowHead Metals Ltd.
Automatic Screw Machine Products Limited
Docap Corporation Limited
Federal Bolt & Nut Corporation Limited

Branch Warehouses

Vancouver, British Columbia
Edmonton, Alberta
Calgary, Alberta
Winnipeg, Manitoba
Toronto, Ontario
Montreal, Quebec
Dartmouth, Nova Scotia

Manufacturing Plants

ArrowHead Metals Ltd.
260-8th Street,
Toronto, Ontario

Automatic Screw Machine Products Limited
55 Brown's Line,
Toronto, Ontario

Docap Corporation Limited
21 Fasken Drive,
Rexdale, Ontario

Federal Bolt & Nut Corporation Limited
55 Brown's Line,
Toronto, Ontario

Directors

Irwin Goldhart,
President,
Automotive Hardware Limited

Frances A. Reid,
Vice-President,
Automotive Hardware Limited

Goldie Potashin,
Secretary-Treasurer,
Automotive Hardware Limited

Sidney Goldhart,
Vice-President,
Docap Corporation Limited

Ross M. Hanbury,
Consultant

Harry L. Mendelson, Q.C.,
Barrister and Solicitor

Officers

Irwin Goldhart, President
Frances A. Reid, Vice-President
Goldie Potashin, Secretary-Treasurer
L.E. Gazley, Vice-President, Marketing
Henry Lubaszka, Vice-President, Finance
Manuel Harris, C.A., Comptroller

Registrar, Transfer Agent and Trustee

National Trust Company Limited
Montreal, Toronto, Winnipeg, Calgary and Vancouver

Bankers

Canadian Imperial Bank of Commerce

Auditors

Miller, Stone, Saperia and Isaacs
Chartered Accountants

Shares Listed

Toronto Stock Exchange

